CANNAE Capital Partners

Monthly – High Conviction Fund March 2009

Performance Summary (total returns after fees)

	1 month	3 months	6 months	Inception
Portfolio[1]	8.0%	-2.1%	-21.1%	-28.9%
Benchmark[2]	8.1%	-1.9%	-20.0%	-28.5%
Performance	-0.1%	-0.2%	-1.1%	-0.4%

Month Summary

The portfolio returned 8.0% for the month of March 2009. This slightly underperformed the benchmark S&P/ASX 300 Accumulation Index, which returned 8.1% for the month.

Sentiment towards equities improved dramatically during the month with the market producing its first positive monthly return since August 2008. The market initially moved lower, before rallying strongly in line with offshore markets after the US Fed aggressively began buying fixed income instruments and relaunched its plan to deal with toxic assets. This was despite Australian economic data remaining weak with GDP declining -0.5% during the December quarter and the unemployment rate increasing from 4.8% to 5.2%, the largest monthly increase since 1998. Investors sought to add riskier positions to their portfolios as Information Technology, Industrials and Financials out performed. Defensive sectors lagged, including Telecommunications, Health Care and Consumer Staples.

The performance for the month is pleasing in the context of our relatively defensive positioning and focus on high quality stocks. It may be hard to sustain such performance in the immediate future if the rally continues, as seems likely in the short term. Low quality and more speculative names tend to do well in such conditions.

Portfolio Activity

The market weakness early in the month enabled positions in Fairfax, Origin Energy, Suncorp, Telstra and Transfield Services Infrastructure to be increased at attractive prices. The portfolio participated in capital raisings by Abacus and Fairfax with shares in the former to be allotted in April. At the time of writing both capital raisings have been highly successful for participants (both have returned >+30%) while significantly strengthening the balance sheets of both companies.

Stock Performance

With a drop in risk aversion during the month, the top performers tended to be ‘high beta’ small caps that had been out of favour and oversold in recent months. These included Fleetwood (+37.1%), OneSteel (+35.9%) and Gunns (+31.4%).

The main underperformers were defensive holdings, including Telstra (-5.6%), Goodman Fielder (-5.6%) and Metcash (-2.9%). We maintain our conviction in these stocks, which we believe were indiscriminately sold down as investors switched from defensives into cyclicals and leveraged sectors (e.g. financials).

In particular, Telstra (a significant active position) has few supporters. Telstra’s exclusion from the NBN process and concerns about harsh regulation dominate the headlines. In our assessment the reality is that Telstra’s competitive dominance will sustain its profitability over the long term and mitigate the impact of the NBN being awarded to a competitor.

Important Information:

[1]Source: RBC Dexia Investor Services

[2]Benchmark: S&P/ASX 300 Accumulation Index